



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

JUN 27 2002

Ms. Adelita S. Orefice
Director, Finance and Accounting
State of Rhode Island
Elementary and Secondary Education
255 Westminster Street
Providence, RI 02903-3400

Dear Ms. Orefice:

This **Final Audit Report** (A06-C0002) presents the results of our audit of the Individuals with Disabilities Education Act (IDEA), Part B, § 611, at the State of Rhode Island's Elementary and Secondary Education (Rhode Island). The objective of our audit was to determine if Rhode Island complied with the IDEA, Part B, § 611 requirements. Our audit focused on federal fiscal years (FY) 2000 and 2001.

We determined that Rhode Island over funded the base allocation in FY 2000 and, in order to compensate for the over funding, inappropriately adjusted downward the population and poverty figures. As a result, nine Local Education Agencies (LEAs) were under funded and 33 LEAs were over funded.

We provided a draft of this report to the Rhode Island Department of Education. In its response, Rhode Island officials requested we modify our recommendation to reallocate FY 2000 funds. They stated that the nine LEAs who were under funded did not spend the monies that were allocated to them in FY 2000 and that no harm was done to the Federal or local interests. Rhode Island's comments are summarized in the section that follows the Recommendation. A copy of the complete response is enclosed with this report.

BACKGROUND

The IDEA Grants to States program provides formula grants to assist the 50 States, the District of Columbia, Puerto Rico, and the outlying areas of the Pacific Basin and Freely Associated States in meeting the excess costs of providing special education and related services to children with disabilities. IDEA Part B requires the U.S. Department of Education (the Department) to allocate funds to the States who are required to allocate a portion of the funding to each Local Education Agency (LEA). Prior to 1997, the formula for calculating the funds that each State and LEA would receive was based on the total number of children with disabilities. The IDEA Amendments of 1997 changed the formula to require States to allocate funds to the LEAs based on total student population and the number of students living in poverty. The new formula was slated to take effect when the Grants to States program exceeded \$4.925 billion. This trigger figure was reached in FY 2000 making it the first year of the new formula and making FY 1999 the base.

The new funding formula has several components, some of which are funds the States may use at the State level. Although the new formula has several components, our audit focused on the funds designated for allocation to the LEAs. These funds are known as the “minimum flow-through funds.” The minimum flow-through funds are composed of three components--a fixed base amount, an amount based on total student population, and an amount based on the number of students living at poverty level. The base figure for each LEA is the amount the LEA would have received for the base year (FY 1999), if the State had distributed 75 percent of its grant for that year. According to § 611(g)(2)(B)(ii), each State is required to distribute 85 percent of the population and poverty funds on a pro rata basis according to the LEAs’ public and private elementary and secondary school enrollment. The remaining 15 percent is distributed to each LEA on a pro rata basis according to the number of children living in poverty.

Each year in July, the Department provides a Grant Notification Letter to each State that identifies the funding level for the flow-through components. Rhode Island allocates IDEA, Part B, § 611 funds to 42 LEAs.

AUDIT RESULTS

Rhode Island did not comply with the new IDEA, Part B, § 611 funding formula for FY 2000. Rhode Island over funded the base figure allocation by \$586,084 and, in order to compensate for the over funding, inappropriately adjusted downward, by \$586,094,¹ the population and poverty figures. As a result, nine LEAs were under funded and the remaining 33 LEAs were over funded. For example, the Providence school district was under funded by \$48,217 while the Cranston school district was over funded by \$6,621. We determined that Rhode Island was in compliance for FY 2001.

The Department’s FY 2000 Grant Notification Letter awarded Rhode Island \$16,161,061 in flow-through funds of which Rhode Island allocated \$16,161,051.¹ The LEA base allocation should have been \$13,181,363. However, Rhode Island computed \$13,767,447 as the base allocation because Rhode Island officials used the 1999 Entitlement figures (1999 flow through amounts) without making the proper adjustments to the base figure. When the State received the Grant Notification Letter, State officials did not adjust the base amount, which resulted in over funding the base allocation. In order to meet the minimum flow-through amounts, State officials adjusted the population and poverty allocations downward. Rhode Island should have allocated \$2,979,698 for the population and poverty amounts (85 percent or \$2,532,743.30 based on population and 15 percent or \$446,954.70 based on poverty). Instead, Rhode Island allocated a total of \$2,393,604--\$2,034,563 for population and \$359,041 for poverty.

¹ The \$10 difference is the result of Rhode Island under allocating the minimum flow through funds.

The following table represents the amounts Rhode Island was required to allocate for FY 2000, according to the Department's Grant Notification Letter and the actual amounts that Rhode Island allocated.

Funding Component	Grant Notification Letter Required Funding Amounts	Rhode Island Actual Funding Amounts
Total Minimum Flow Through to LEAs	\$16,161,061	\$16,161,051
LEA Base Allocation	\$13,181,363	\$13,767,447
LEA Population/Poverty	\$ 2,979,698	\$ 2,393,604
85% Population Allocation	**\$ 2,532,743	\$ 2,034,563
15% Poverty Allocation	**\$ 446,955	\$ 359,041

** OIG calculations from the Population/Poverty figure in the Grant Notification Letter.

RECOMMENDATION

We recommend that the Assistant Secretary for the Office of Special Education and Rehabilitative Services require Rhode Island officials to recompute the FY 2000 flow-through funds using the correct base, population, and poverty figures and reallocate the correct funding to the LEAs.

RHODE ISLAND'S COMMENTS TO THE DRAFT REPORT AND OIG'S RESPONSE

Rhode Island requested that our recommendation to reallocate FY 2000 funds be modified. We did not change our recommendation based on Rhode Island's response. Rhode Island stated, "Rhode Island prepared the FFY 2000 allocation based on the interpretation of the regulations to mean that the base amount of 75% required by the new allocation method was the minimum amount that could be allocated to LEAs. We believed that if in that base year a state had allocated more than 75%, as we did in RI, it was allowable to use that higher amount as a hold harmless for the base. In preparing the second year's allocation, it was learned that this was an incorrect premise. The base amount of 75% of FFY 2000 was to be used even if the SEA had given out higher amounts than that to the LEAs in FFY 2000. The appropriate base was used to prepare the FFY 2001 LEA allocations."

Rhode Island further stated that although the FY 2000 allocation was prepared based on an invalid interpretation of the methodology, the nine LEAs that were under funded did not spend all allocated funds. Also, even if they were given the additional monies due them, they could not have spent it. Consequently, no harm had been done to the Federal or to the local interest. They further stated that in view of the absence of harm, to undergo the complex administrative process of reallocating funds would be burdensome and unproductive.

OIG's Response.

We agree that the base amount of 75% required by the new allocation method is the minimum amount that must be allocated to the LEAs and that the State may use a higher base allocation than the minimum required. However, if a State chooses to allocate more than the minimum, the additional funds must come from another source such as the State's discretionary IDEA funds. The additional funds may not come from the population or poverty components as was the case with the FY 2000 allocation and the additional funds do not change the base allocation for subsequent years. The base allocation is a constant figure that was established in the FY 1999 IDEA grant award and did not change with the FY 2000 award.

While we acknowledge that Rhode Island provided documentation that the nine LEAs did not expend all of their funds, it is possible that a greater amount of funds may have allowed those LEAs to fund services for those children with disabilities that a smaller amount of funds would not allow. Although the reallocation process will require additional administrative time, our recommendation remains unchanged.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine if Rhode Island complied with the new IDEA, Part B, § 611 funding requirements for FYs 2000 and 2001. To accomplish our objective, we:

- Obtained Rhode Island's formula allocation to all the LEAs, including the allocation breakdown of the base, population, and poverty amounts for FYs 2000 and 2001.
- Reviewed the Rhode Island State Auditor report for 2000.
- Interviewed State officials regarding the data used in the allocation formula, the methodology used in the formula, and other applicable procedures.
- Recalculated the allocation for all Rhode Island's LEAs.
- Performed limited data reliability tests on the data used in the allocation formula and found the data to be reliable for our purposes.

Our audit of Rhode Island's formula allocation covered FYs 2000 and 2001. We performed fieldwork from December 4 through December 6, 2001, at the State offices in Providence, Rhode Island. A pre-exit conference was held on December 6, 2001, and a final exit conference was held on April 3, 2002. Our work was performed in accordance with generally accepted government auditing standards appropriate to the scope of the audit described above.

STATEMENT OF MANAGEMENT CONTROLS

As part of our review, we assessed the management control system of procedures and practices applicable to Rhode Island's compliance with IDEA, Part B, § 611. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish the audit objective.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed a management control weakness that adversely affected the allocation of flow-through funds to the 42 Rhode Island LEAs. That weakness is discussed in the Audit Results section of this report.

ADMINISTRATIVE MATTERS

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following U.S. Department of Education official, who will consider them before taking final Departmental action on the audit:

Dr. Robert H. Pasternack, Assistant Secretary
U.S. Department of Education
Office of Special Education & Rehabilitative Services
330 C Street, SW
Room 3006, MES Building
Washington, DC 20202-2500

Office of Management and Budget Circular A-50 directs Federal agencies to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, we request receipt of your comments within 30 days.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

If you have any questions or wish to discuss the contents of this report, please contact Sherri L. Demmel, Regional Inspector General for Audit, Dallas, Texas, at 214-880-3031. Please refer to the control number in all correspondence related to this report.

Sincerely,



Thomas A. Carter
Assistant Inspector General for Audit Services

Enclosure



Peter McWalters
Commissioner

State of Rhode Island and Providence Plantations
DEPARTMENT OF EDUCATION
Shepard Building
255 Westminster Street
Providence, Rhode Island 02903-3400

May 9, 2002

Ms. Sherri L. Demmel,
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
1999 Bryan Street, Suite 2630
Dallas, TX 75201-6817

Dear Ms. Demmel:

Attached is the Rhode Island Department of Education's response to the Draft Audit Report (A06-C0002) on the results of your audit of the Individuals with Disabilities Education Act (IDEA), Part B, 611.

Please contact me at 222-4600, 2402, should you have any questions:

Sincerely,

A handwritten signature in black ink, appearing to read "Adelita Orefice", with a long horizontal flourish extending to the right.

Adelita Orefice,
Director of Finance

Attachement

CC: Loreto Gandara
Antonia Gibbs

Telephone (401)222-4600 **Fax** (401)222-6178 **TTY** 800-745-5555 **Voicemail** 800-745-6575

The Board of Regents does not discriminate on the basis of age, color, sex, sexual orientation, race, religion, national origin, or disability.

RECOMMENDATION:

We recommend that the Assistant Secretary for the Office Of Special Education and Rehabilitative Services require Rhode Island officials to recompute the FFY2000 flow-through funds using the correct base, population and poverty figures and reallocate the correct funding to the LEA's.

RESPONSE:

Rhode Island prepared the FFY2000 allocation based on the interpretation of the regulations to mean that the base amount of 75% required by the new allocation method was the minimum amount that could be allocated to LEA's. We believed that if in that base year a state had allocated more than 75%, as we did in RI, it was allowable to use that higher amount as a hold harmless for the base. In preparing the second's years allocation, it was learned that this was an incorrect premise. The base amount of 75% of FFY2000 funds was to be used even if the SEA had given out higher amounts than that to the LEA's in FFY2000. The appropriate base was used to prepare the FFY2001 LEA allocations.

Prior to the commencement of the OIG audit, RIDE sat with the OIG auditors and alerted them to the fact that we may have incorrectly prepared the FFY2000 allocation. We also pointed out that we had correctly prepared the FFY2001 allocation in response to our revised information. During the OIG audit processes, RIDE was able to document that though the FFY2000 allocation had been prepared based on an invalid interpretation of the methodology, even the nine communities for which funds had been under allocated had not spent all their allocated funds (see attached table). In other words, even if RIDE had given those communities the additional monies due them, they could not have spent it. Consequently, no harm had been done to the federal or to the local interest.

RIDE feels that in view of this absence of harm, requiring RIDE and the LEA's to undergo the complex statewide administrative process required to reallocate funds-funds that would not have been expended even had they been initially allocated-would be burdensome and unproductive. We request that the recommendation be modified.

REPORT DISTRIBUTION LIST
CONTROL NO. ED-OIG/A06-C0002

Auditee

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Elementary and Secondary Education
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ED Action Official

Dr. Robert H. Pasternack
Assistant Secretary
Office of Special Education and
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